

Commission's proposals would be prohibitively expensive with no offsetting ratepayer benefit. The proposed extension would place a particularly harsh burden on smaller exchange carriers whose billed services, in many cases, may amount to less than the cost of estimating fair market value. Likewise, carriers with many telephone operating companies could find the cost to be especially prohibitive since they may have to implement this requirement in each of these companies.

Finally, obtaining estimating fair market value is far more difficult for product/service transactions than for asset transfer. Among the Tier I carriers, asset transfers are few in number, generally involve real property, and, thus, have a readily definable fair market value. This value can be objectively determined by any qualified independent assessor. Conversely, product/service transactions such as national security, emergency preparedness, regulatory and executive support and Bellcore research, occur in great number, are very different and generally have no direct market comparables. The development of procedural standards for the determination of a fair market value for all of the products/services provided to the carriers would be virtually impossible. The process itself would be complex and costly to administer, and the results would be extremely difficult to audit objectively. In the Joint Cost Reconsideration Order, the Commission agreed with this position. It has provided no substantive reason for reconsidering this issue at this time.

D. Quantification of the Commission's Proposals Should Not Be Required.

Quantification of the Commission's proposals would be premature at best. The proposals are so far-reaching that they will certainly impact Part 32 as well as Part 64. Exchange carriers cannot quantify the Part 32 impact until they have identified the affected services. It is not clear that the benefits of any of these proposals will outweigh the costs which would be incurred to quantify them.

Nonregulated affiliates which currently only offer services and products at market price do not have systems in place to determine fully distributed costs or to populate the proposed rate base. It would be imprudent to force these affiliates to incur the costs to develop such systems until final rules are adopted.

E. The Commission's Proposal Regarding Chain Transactions Is Unnecessary.

The Commission is proposing to require carriers to calculate the costs of resources obtained from other affiliates in accordance with its proposed valuation methods in chain transactions.²⁸ Such a requirement is unnecessary, burdensome and, in many cases, would be impossible to do.

Carriers following the current affiliate transactions rules do not need to incur the added cost to trace each step of the transaction. Further, many items, such as provision of legal

²⁸Id. at ¶ 49.

advice, cannot be traced to a specific transaction due to the intangible nature of such costs.

The alternative suggested by the Commission is unreasonable.²⁹ Such a "flow through" arrangement generally does not occur in a chain transaction. A chain transaction occurs when each affiliate in the chain group adds value through labor or the addition of other resources. The majority of affiliate transactions are for the provision of services to the purchasing affiliate and do not involve the carrying forward of any value to the next affiliate in the chain. Therefore, the Commission's concerns regarding cross subsidy are unwarranted.

F. The Commission Need Not Impose Additional Cost Apportionment Requirements.

The current rules require that costs incurred in the provision of both regulated and nonregulated services be apportioned in accordance with §64.901 of the rules. The Notice suggests that additional cost apportionments may be necessary to increase precision.³⁰

The Commission's suggestion is confusing because there is no requirement in the current rules which necessitates the apportionment of nonregulated costs between affiliate transactions and nonaffiliate transactions. In any case, it would be inappropriate and unwarranted for the nonregulated

²⁹Id. at ¶ 50.

³⁰Id. at ¶¶ 55 and 56.

affiliates to make Part 32 classification decisions for exchange carriers. Under the current rules, costs incurred when an exchange carrier purchases resources from an affiliate are coded to the appropriate account to reflect the exchange carrier's use of the resource, not the origin of the costs by a nonregulated affiliate. This is the procedure used in transactions with all vendors. Once those costs are recorded pursuant to Part 32, they are allocated between regulated and nonregulated operations through Part 64. Any post-Part 64 apportionment of nonregulated operations would not affect ratepayers and would be unnecessary. The additional cost apportionments contained in the Notice should not be adopted.

G. The Rate Base Described in the Notice Should Not Be Adopted.

The Notice proposes several modifications to the generic rate base used by nonregulated affiliates.³¹ These modifications are unnecessary and should not be adopted.

USTA, working with the Commission staff, has already developed such a rate base which meets the Commission's requirements to incorporate Part 65 principles without inappropriately imposing the detailed Part 65 formulas on nonregulated affiliates.³² Since nonregulated affiliates do not use the Part 32 accounting structure or rules, it would be

³¹Id. at ¶¶ 57-65.

³²USTA Accounting and Finance Committee Bulletin No. 92-8 at Attachment.

inappropriate and, in some cases, misleading to impose the Part 65 rules on their different accounting structures. Further, the Commission has not demonstrated that application of Part 65 to nonregulated affiliates is necessary. To adopt such a requirement would impose administrative costs without any proven benefit.

If the Commission determines that a rate base methodology for nonregulated affiliates is necessary, it should adopt the methodology developed by USTA. That formula has been available for over two years and no finding has been made that improper costs have flowed to interstate operations as a result of its use. The formula's reliance on GAAP is both appropriate and sufficient since nonregulated affiliates rely exclusively on GAAP. GAAP prevents any inappropriate accounting treatment for nonregulated affiliates. The USTA formula is currently measurable and auditable.

Finally, applying the proposed rate base formula of used and useful and distinguishing between short term and long term construction projects is inappropriate for nonregulated affiliates because the formulas were developed for regulated companies which are fundamentally different with respect to the type, deployment and retirement of assets. The proposed modifications to the generic ratebase are unnecessary and would result in additional administrative costs. They should not be adopted.

The Notice also seeks comment on what expenses a carrier can

include in net income determinations associated with affiliate transactions.³³ This, too, is unnecessary and would result in greater administrative costs without any corresponding benefit. As noted above, GAAP constrains any inappropriate accounting treatment by nonregulated affiliates. The current treatment is both measurable and auditable. The Commission should not adopt this proposal.

H. Exchange Carriers Should Be Permitted Some Flexibility in the Rate of Return Utilized for Affiliate Transactions.

Exchange carriers should be permitted to utilize a rate of return which is appropriate for affiliate transactions and the method of regulation. If the rate is different from the current rate of 11.25 percent, carriers should reference the rate of return utilized in their CAM.³⁴

I. The Commission's Proposals Regarding Estimates Are Not Necessary.

The Notice proposes to require carriers to estimate affiliate transaction costs, to true-up those estimates on a quarterly basis and to make a final true-up for the year.³⁵ It is unclear whether the Commission is proposing that carriers book

³³Id. at ¶¶ 72-76.

³⁴Letter from Jose-Luis Rodriguez, Chief, Audits Branch, Accounting and Audits Division, Common Carrier Bureau, to Fred Conrad, Director-Federal Regulatory Matters, Ameritech Corporation, at 3-4 (April 20, 1992).

³⁵Id. at ¶¶ 77-80.

estimates. It is not appropriate under GAAP to record estimates in a carrier's books if actual data is available. However, if actual data is not available and estimates must be used, true-ups need only be made on an annual basis if material. An annual true-up is sufficient to ensure compliance with the Commission's rules and to make necessary adjustments.

J. Alternative Valuation Methodologies Described in the Notice Should Not Be Adopted.

The Notice proposes to allow alternative valuation methods which reduce regulated costs.³⁶ These issues have already been considered by the Commission and need not be readdressed in this proceeding.³⁷

K. Special Disclosure Provisions for Affiliates That Meet the "Bright Line" Test Are Not Required.

The Notice proposes to require carriers to list in their CAMs which affiliates meet the proposed "bright line" test.³⁸ Such a proposal is not necessary as the information is already available in the CAMs. Current rules already require that carriers identify affiliates using prevailing company price.

³⁶Id. at ¶¶ 37-39.

³⁷See, Local Exchange Carriers' Permanent Cost Allocation Manuals for the Separation of Regulated and Nonregulated Costs, AAD Nos. 92-22 through 92-35, Order, DA 93-511, released May 7, 1993.

³⁸Notice at ¶ 95.

L. Use of Tariffed Rates.

While USTA does not specifically oppose the continued use of tariffed rates as required under existing rules, USTA would suggest that the Commission amend its proposed rule in §§ 32.27(a) and (b) by adding the underlined words as noted below:

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with nonregulated affiliates involving asset transfers into or out of the regulated accounts...

(b) Affiliate transactions provided pursuant to tariffs that are generally available, on file with a federal, state or local agency,...

M. Expansion of the Annual Independent Audit is Not Required.

The Notice proposes to expand the scope of the annual independent audit to encompass the requirements adopted in this proceeding and to incorporate an audit trail into the rules.³⁹ As noted above, the proposed requirements are not necessary to prevent improper cross subsidy. If adopted, the Commission's proposal will add costs and complexity to the current rules and to the annual independent audit. Without demonstrated ratepayer benefit, these proposals should not be adopted.

Likewise, it is not necessary to incorporate an audit trail in the current rules. The issue of audit trails is covered by Generally Accepted Auditing Standards used to conduct the independent audits required in § 64.904. Carriers are already required to maintain accounting books and records and utilize

³⁹Id. at ¶¶ 98-99.

internal accounting controls.⁴⁰ Any requirements beyond these are redundant and burdensome and would not provide any additional benefit to ratepayers.

III. CONCLUSION.

The proposed rules are burdensome, unnecessary and have not been shown to be in the public interest. USTA urges the Commission not to adopt the proposed rules.

Respectfully submitted,

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⁴⁰See, generally, GAAP and Foreign Corrupt Practices Act 15, USCA § 78 q (b).

**Accounting and Finance Committee Bulletin Number 92-8
A Guide on Rate Base and Rate of Return for Nonregulated Affiliates**

**ACCOUNTING AND FINANCE
COMMITTEE BULLETIN NO. 92-8
A GUIDE ON RATE BASE AND
RATE OF RETURN FOR
NONREGULATED AFFILIATES**

December, 1992

USTA

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RATE BASE AND ALLOWABLE RATE OF RETURN FOR NONREGULATED AFFILIATES

A GUIDE PREPARED BY THE
UNITED STATE TELEPHONE ASSOCIATION (USTA)

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1. Introduction

Effective January 1, 1988, with the implementation of the Federal Communications Commission (FCC) rules associated with the allocation of costs between regulated services and nonregulated activities, local exchange carriers were required to account for transactions with affiliates based on the FCC's rules in Part 32 Section 32.27.

Section 32.27 rules apply to all transactions which involve the direct transfer of assets or services between regulated carriers and nonregulated affiliates. Also, these rules apply to certain transactions between nonregulated affiliates if the costs associated with these transactions are subsequently transferred into regulation through chaining transactions with their regulated affiliates.

The USTA Cost Allocation Task Group has been working with the FCC's Accounting and Audits Division to develop guidance on the rate base methodology and the authorized rate of return acceptable to the FCC's Accounting and Audits Division. The purpose of this guide is to provide to USTA's membership the guidance developed on these issues.

This Bulletin uses the terms "rate base" and "rate of return" in connection with nonregulated affiliates of local exchange carriers. These terms are uniquely terms of regulation, and nonregulated affiliates do not have a regulated rate base or rate of return, by definition. The use of these terms in this Bulletin is for convenience only, to help explain how the FCC seeks to measure the impact of affiliate transactions on the regulated business of the local exchange carrier. Members' attention is directed to this terminology so that they will not unintentionally subject more of their business to regulation than the Communications Act anticipates.

This Bulletin was prepared by the Cost Allocation Task Group, under the direction of the Accounting and Finance Committee. Dell Coleman, of BellSouth Corporation, was the chairman for this guide.

If you have any questions, please contact Porter E. Childers, Executive Director-Accounting and Financial Matters, on (202) 835-3123.

2. Purpose

The purpose of this guide is to provide USTA's membership with:

1. The latest guidance received from the FCC on the development of a rate base for nonregulated affiliates.
2. A model that nonregulated affiliates may wish to use when developing a rate base. If a nonregulated affiliate provides services at fully distributed cost (FDC) and at the prevailing market rate, the rate base developed using this model must be allocated between FDC services and services provided at the prevailing market rate.
3. The latest guidance received from the FCC staff on the allowable rate of return for services provided at FDC.

3. Scope

Section 32.27 requires the regulated carrier to record services provided by a nonregulated affiliate at the nonregulated affiliate's FDC if no market rate exists for these services. Also, FDC as described by these rules, includes a return on the nonregulated affiliate's investment (i.e., rate base) that is used to provide these services.

The Section 32.27 rules do not specify:

1. What should be included in a nonregulated affiliate's rate base or;
2. What the allowable return on the nonregulated affiliate's rate base is.

The USTA Cost Allocation Task Group has been working with the FCC's Accounting and Audits Division Staff to obtain clarification of these issues. The guidance provided in this Bulletin is limited solely to these two issues.

4. General Concepts

Absent a prevailing market rate, the Section 32.27 rules require the carrier to record products and services purchased from nonregulated affiliates at FDC which includes a return on the nonregulated affiliate's rate base. However, the rules provide no guidance on what should be included in a nonregulated affiliate's rate base.

The FCC's Part 65 rules provide guidelines that all dominant carriers under rate of return regulation must follow when developing the rate base used to establish rates charged for regulated services. The rules are based on the principle that carriers should have an opportunity to earn a return on capital provided by its debt and equity investors. These rules are also followed by price cap carriers to develop the rate base used to measure their achieved earnings.

Although this principle is applicable to nonregulated affiliates, the methodology prescribed is not appropriate for nonregulated affiliates for several reasons. First, nonregulated affiliates generally do not use the Part 32 chart of accounts. Since the rate base formula prescribed by Part 65 refers to specific Part 32 accounts, even if the results could be obtained from such an application they may be misleading.

Second, the Part 65 rules require carriers to base their working capital allowance on lead-lag studies. These studies would be costly and difficult to perform. The cost of doing these studies would be passed on to the regulated carrier and ultimately to the regulated carrier's customers.

Finally, regulated carriers have a majority of their capital invested in long-term assets (i.e., assets having a life longer than one year) while affiliates have more of their capital invested in current assets (i.e., assets having life of one year or less). Application of a rate base formula designed for regulated carriers to a nonregulated affiliate which has a markedly different make-up of current and long-term assets is inappropriate and could result in a misstatement of the nonregulated affiliate's rate base.

For the above reasons the rate base methodology prescribed by the Part 65 rules may not be appropriate for use when developing a nonregulated affiliate's rate base.

5. Guidance Provided By FCC Accounting and Audits Division

The FCC recognized that the rate base methodology prescribed for carriers was not appropriate for nonregulated affiliates. On April 20, 1992, the Chief, Audits Branch provided Tier 1 carriers with the following guidance:

"Regarding the determination of a nonregulated affiliate's rate base used for computing the interstate return on investment component for services provided by a nonregulated affiliate to an operating company at FDC, we have found during our audits that the following components comprise a generic rate base similar to those of the regulated companies:

- Property, plant and equipment;
- Deferred charges and other assets; and,
- Cash working capital.
- Less: - accumulated depreciation;
 - accumulated deferred income taxes; and,
 - other deferred credits.

Some assumptions necessary to determine a generic nonregulated rate base are as follows:

- (a) a 13 month average of the net investments using monthly financial statements should be used to calculate average annual net investment amounts;
- (b) all property, plant and equipment is assumed to be used and useful; and,
- (c) in the absence of a lead-lag study, which would involve considerable resources to perform, cash working capital should be computed in the conventional manner; current assets less current liabilities, excluding temporary cash investments and investors' capital such as short term debt and the current portion of capital leases."

6. USTA Model

USTA has developed a model which applies the above guidance. The model can be applied to all nonregulated affiliates that provide services to carriers at FDC. The model is relatively easy to audit because its components can be tied directly back to the nonregulated affiliate's balance sheet. Also, the reasonableness of the result can be tested by comparing the nonregulated affiliate's rate base to its total investor supplied capital (long and short term debt and shareholder equity).

The attached model shows the development of the rate base for a nonregulated affiliate based on the guidance received from the Chief of the Audits Branch (see Attachment Page 1) and how the auditor can test the nonregulated affiliate's rate base by comparing the rate base to total investor supplied capital (see Attachment Page 13). Also, the model includes a description of each component included in the nonregulated affiliate's rate base (see Attachment Pages 2, 3, 6, 7 and 10).

In the model, average rate base and capital components are computed using a thirteen month averaging technique. Some companies use an averaging technique known as the average of the average monthly balances. Either technique is an acceptable method for computing the average rate base and capital components.

7. Allowable Rate of Return

The Audits Branch Chief's letter of April 20, 1992, contained the following guidance on the allowable rate of return for nonregulated affiliates:

"In enforcing the affiliate transaction rules, the Commission has consistently taken the position that a nonregulated affiliate that provides services to the operating company at fully distributed cost may include a return on investment in that cost. A company planning to use some rate of return other than the authorized rate of return for interstate access services in setting the prices for affiliate transactions would have to amend its CAM to so state, and then obtain Commission approval for the amendment. No such CAM amendments have been approved. Thus, our expectation is that all LECs use the authorized rate of return in pricing affiliate transactions. Since January 1, 1991, the authorized rate of return for interstate access services has been 11.25%."

Accounting and Finance Committee Bulletin Number 92 - 8
A Guide on Rate Base for Nonregulated Affiliates

Attachment
Multiple Product Lines Inc. (MPL)
Development of Rate Base

		(000)
Line No.	Item Description	Average 12-31-89
1.	Asset Investment :	
A.	Plant and Equipment	\$98,215
B.	Less : Accumulated Depreciation and Amortization	<u>43,008</u>
C.	Net Plant and Equipment (L1A - L1B)	<u>\$55,207</u>
2.	Other Additions :	
A.	Inventories	\$68,872
B.	Deferred Charges	11,894
C.	Other Non-Current Assets	<u>16,919</u>
D.	Total Other Additions (2A + 2B + 2C)	<u>97,685</u>
3.	Gross Investment Net of Accum. Deprec. & Amort. (L1C + L2D)	\$152,892
4.	Other Deductions :	
A.	Deferred Income Taxes	\$8,987
B.	Other Deferred Credits (Excludes Investment Tax Credit)	<u>5,667</u>
C.	Total Deductions (L4A + L4B)	<u>\$14,654</u>
5.	Net Asset Investment (L3 - L4C)	\$138,238
6.	Working Capital	<u>5,753</u>
7.	Rate Base (L5 + L6)	<u>\$143,991</u>

Source For average balances at lines 1A, 1B, 2A, 2B, 2C, 4A and 4B: Page 4.
For working capital at line 6: Line 3 of page 5.

NOTE Investment tax credit (ITC) is not deducted when computing MPL's rate base. Instead, ITC is included as a component of total capital which is consistent with the treatment of ITC by the FCC for ratemaking purposes (see page 9).

Attachment
Multiple Product Lines, Inc. (MPL)
Explanation of Rate Base Components Included in Page 1

Line #1A - Plant and Equipment

This line includes the average investment in fixed assets recorded in accordance with Generally Accepted Accounting Principles (GAAP).

Line #1B - Accumulated Depreciation and Amortization

This line includes the average accumulated depreciation and amortization accrued in accordance with GAAP on fixed assets reported at Line #1A. Deduction of this item is consistent with the premise that carriers should be provided an opportunity to earn a return on capital provided by debt and equity investors.

Line #2A - Inventories

This line includes the average investment in materials, supplies, work in process, and finished goods used by MPL in its day-to-day operations.

Line #2B - Deferred Charges

This line includes the average investment in deferred charges such as compensated absences, pension benefits etc., recorded in accordance with GAAP.

Line #2C - Other Non-Current Assets

This line includes the average investment in non-current assets recorded in accordance with GAAP. Examples are organizational costs, debt discount and issuance cost. Also, this line excludes investments in affiliates.

Attachment
Multiple Product Lines, Inc. (MPL)
Explanation of Rate Base Components Included in Page 1
(continued)

Line #4A - Deferred Income Taxes

This line includes the average deferred taxes related to book/tax timing differences recorded in accordance with GAAP. Deduction of this item is consistent with the premise that carriers should be provided an opportunity to earn a return on capital provided by debt and equity investors.

Line #4B - Other Deferred Credits

This line includes the average of other deferred credits such as unfunded accrued pension costs recorded in accordance with GAAP except for investment tax credit (ITC). This treatment of ITC (i.e., excluding it as a deduction when computing rate base) is consistent with the treatment of ITC by the FCC for ratemaking purposes.

Line 6 - Working Capital

The amount on this line reflects working capital provided by MPL's investors. A nonregulated affiliate like MPL can determine the amount of this line item by analyzing the components of its average net current position. Generally, the total capital investors are required to provide for MPL's day-to-day operations can be determined by summing its average investment in current assets (i.e., cash, accounts receivable, etc.) and deducting the average non-investor supplied capital (i.e., accounts payable, accrued liabilities, etc.) reported in the balance sheet as current liabilities. Therefore, it is not necessary for MPL to do lead-lag studies to measure working capital provided by its debt and equity investors. Page 5 of the attachment shows the detail components included in the measurement of working capital provided by MPL's investors. Pages 6 and 7 of the attachment describe each component included in the analysis.

Attachment
Multiple Product Lines Inc. (MPL)
Development Of Average Asset Investment And Average Deductions
For Twelve Months Ended 12/31/89

(000)							
Balance As Of	(1) Plant and Equipment	(2) Inventories	(3) Other Non-Current Assets	(4) Deferred Charges	(5) Accum. Deprec. & Amort.	(6) Deferred Income Taxes	(7) Other Deferred Credits
01-01-89	\$93,465	\$74,291	\$14,638	\$12,594	\$36,774	\$9,303	\$3,872
01-31-89	93,618	74,985	16,580	12,477	38,033	9,285	5,101
02-28-89	93,705	75,145	16,633	12,361	39,233	8,956	6,044
03-31-89	93,824	74,237	16,758	12,244	40,178	10,999	5,546
04-30-89	93,810	73,837	16,815	12,128	41,245	11,178	6,183
05-31-89	93,594	70,719	17,050	12,011	41,618	11,245	6,633
06-30-89	94,307	67,891	17,202	11,894	43,006	11,444	5,995
07-31-89	99,892	65,790	17,414	11,778	44,125	10,520	6,114
08-31-89	100,027	65,308	17,447	11,661	45,364	9,526	6,267
09-30-89	105,677	62,092	17,318	11,545	47,665	8,987	5,547
10-31-89	102,931	63,331	16,991	11,428	45,898	3,559	5,538
11-30-89	103,203	63,495	17,550	11,311	47,403	4,757	5,663
12-31-89	<u>108,740</u>	<u>64,216</u>	<u>17,550</u>	<u>11,195</u>	<u>48,567</u>	<u>7,067</u>	<u>5,172</u>
Total	<u>\$1,276,793</u>	<u>\$895,337</u>	<u>\$219,946</u>	<u>\$154,627</u>	<u>\$559,109</u>	<u>\$116,826</u>	<u>\$73,675</u>
Average	<u>\$93,215</u>	<u>\$68,872</u>	<u>\$16,715</u>	<u>\$11,894</u>	<u>\$43,008</u>	<u>\$8,987</u>	<u>\$5,667</u>

Source For data in columns (1) through (7): MPL'S monthly balance sheet.

Attachment
Multiple Product Lines Inc. (MPL)
Development of Working Capital

		(000)
Line No.	Item Description	Average 12-31-89
1.	Working Capital Needs:	
A.	Cash and Cash Equivalents (Excludes Temp. Cash Invest.)	\$1,245
B.	Accounts Receivable from Affiliates (Excludes Advances)	91,409
C.	Accounts Receivable from Others	2,132
D.	Prepaid Assets	14,448
E.	Other Current Assets	<u>1,591</u>
F.	Total Working Capital Requirements (Sum L1A through L1E)	\$110,825
2.	Non-Investor Supplied Capital:	
A.	Accounts Payable to Affiliates (Excludes Advances)	\$15,469
B.	Accounts Payable to Others	65,775
C.	Other Current Liabilities	<u>23,828</u>
D.	Total Non-Investor Supplied Capital (Sum L2A through L2C)	<u>\$105,072</u>
3.	Working Capital Provided by Investors (customers) {L1F - L2D}	<u><u>\$5,753</u></u>

Source For amounts on lines 1A through 1E and lines 2A through 2C: Page 8.

NOTE 1 MPL's investment in inventory, classified as a current asset in the balance sheet, is excluded from lines 1A through 1E because this component is included as a separate line item on page 1.

NOTE 2 Capital provided by debt and equity investors, such as short term debt and dividends payable, is excluded from lines 2A through 2B. This treatment is consistent with the FCC's treatment of short term debt in the rate of return represcription proceeding (i.e., CC Docket No. 89-624) and the treatment prescribed for dividends payable by the FCC's Report and Order issued in CC Docket No. 86-497.

Attachment
Multiple Product Lines, Inc. (MPL)
Explanation of Working Capital Components

Line #1A - Cash and Cash Equivalents

This line includes the average cash balances and working funds required for MPL's day-to-day operations (excludes temporary cash investment).

Line #1B - Accounts Receivable From Affiliates

This line includes the average amount due for services provided to affiliates. Advances to affiliates should not be included in this line item.

Line #1C - Accounts Receivable From Others

This line includes the average amount due from third parties for services rendered in day-to-day operations.

Line #1D - Prepaid Assets

This line includes the average expenditures for items such as insurance, rents, and pension costs recorded in accordance with GAAP.

Line #1E - Other Current Assets

This line includes the average other current assets recorded in accordance with GAAP.

Line #2A - Accounts Payable to Affiliates

This line includes the average amount due affiliates recorded in accordance with GAAP. Advances from affiliates should not be included in this line item.

**Attachment
Multiple Product Lines, Inc. (MPL)
Explanation of Working Capital Components
(continued)**

Line #2B - Accounts Payable to Others

This line includes the average amount owed to third parties for purchases of products and services required in the conduct of day-to-day operations.

Line #2C - Other Current Liabilities

This line includes the average amount owed or accrued for items such as other taxes, income taxes, liability for compensated absences, etc., recorded in accordance with GAAP. This line does not include capital supplied by debt and equity investors such as commercial paper, bank lines of credit, advances from affiliates, dividends payable and current maturities of long term debt that are reported as current liabilities in MPL's financial statements.